

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Chicopee
Contributory Retirement System
For the Three Year Period
January 1, 2000 - December 31, 2002
PERAC 02: 10-027-32**

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June 18, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Chicopee** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2000** to December 31, **2002**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Harry Chadwick and Robert Madison who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Chicopee Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

1. **Outstanding Checks**

The Chicopee Retirement System has an outstanding check balance of \$10,073.55 representing thirty-eight payroll checks dating back to March 1998.

Recommendation:

Checks outstanding more than six months must be reviewed to determine if the retiree is still eligible to receive them. This review should include letters to retirees requesting information as to the status of the uncashed checks. The retirees must be given at least 30 days to respond. Only after these procedures are followed may the checks be returned back to the system.

Board Response:

This situation has been addressed with the Treasurer's Office and the outstanding checks will be reviewed more timely. As of today, we have already reduced the number of outstanding checks and will continue to work with the Treasurer's Office on this matter according to the recommended procedure.

2. **Financial Reporting**

The Retirement Administrator does not receive copies of monthly cash reconciliations and the Retirement Board members do not review a copy of cash reconciliations at monthly meetings.

Recommendation:

The Retirement Administrator must receive and review copies of monthly cash reconciliations and Retirement Board members must review cash account reconciliations at monthly Board meetings. PERAC Regulation 840 CMR 25.31 (6) encourages the Board to review financial statements such as cash reconciliations on a monthly basis.

Board Response:

This situation has been addressed with the Treasurer's Office. The Retirement Administrator has requested copies of the monthly cash reconciliations from the Treasurer's Office to be submitted to the Retirement System on a monthly basis. The Board has already began receiving this information and this information will be reviewed monthly as recommended.

3. **Investments**

The Retirement System reported \$81,682.88 of Executive Life as an investment on their December 31, 2002 Annual Statement. Executive Life has been in receivership for several years by the State of California and is no longer in business.

Recommendation:

Because Executive Life is no longer in business, the reported investment of \$81,682.88 must be written off to reflect the current market value of the investment.

Chicopee Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT.)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

Board Response:

This investment was purchased for \$500,000.00 and appreciated to \$1,203,084.20 as required by PERAC. \$1,121,401.32 was ultimately received, only leaving a balance of \$81,682.88, which is why the investment was still listed. Over the years, the Board was still receiving monies from this investment. This investment has been written off as of December 31, 2003 and any further monies received pertaining to this investment will be recorded as income as recommended.

4. Board Minutes

A review of the minutes revealed that a member of the Board had a greater than twenty-five percent absentee rate during the 3-year audit period. The absentee percentages for the respective audit years 2000, 2001 and 2002 were thirty-three percent, twenty-seven percent and forty-two percent.

Recommendation:

Board members are expected to attend all scheduled Board meetings. The Board may want to consider changing the times of Board meetings in order to accommodate this Board member's schedule. In addition, since the City has adopted an annual stipend for service, the Board may want to consider adopting a supplemental regulation making payment of the stipend subject to reasonable attendance at Board meetings. An absentee rate that exceeds twenty-five percent is not considered reasonable.

Board Response:

The Chairman of the Retirement Board has spoken with this board member and has explained the importance of meeting attendance. The Board member understood and has agreed, and will do everything possible to attend all future Board meetings. As recommended, Board meetings will be rescheduled to accommodate the board members, if necessary.

Final Determination

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Chicopee Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2002	2001	2000
Cash	\$3,823,985	\$335,458	\$657,672
Short Term Investments	3,910,124	4,092,562	2,867,438
Fixed Income Securities (at book value)	81,683	89,351	41,133,236
Equities	70,500	68,250	9,666,635
Pooled Short Term Funds			
Pooled Domestic Equity Funds	38,709,393	45,304,795	43,866,178
Pooled International Equity Funds	2,942,881	3,532,109	4,823,716
Pooled Global Equity Funds			
Pooled Domestic Fixed Income Funds	40,886,471	44,226,409	0
Pooled International Fixed Income Funds			
Pooled Global Fixed Income Funds			
Pooled Alternative Investment Funds			
Pooled Real Estate Funds	4,237,071	3,700,212	2,973,951
Pooled Domestic Balanced Funds			
Pooled International Balanced Funds			
PRIT Cash Fund			
PRIT Core Fund			
Interest Due and Accrued	463	235	673,615
Accounts Receivable	422,958	1,050,438	435,313
Accounts Payable	(3,477,036)	(1,083)	(12,812)
TOTAL	<u>\$91,608,492</u>	<u>\$102,398,736</u>	<u>\$107,084,942</u>
FUND BALANCES			
Annuity Savings Fund	\$29,251,626	\$28,275,559	\$26,465,038
Annuity Reserve Fund	11,032,404	9,993,010	9,997,493
Pension Fund	8,823,308	10,346,397	11,472,649
Military Service Fund	8,062	6,854	7,810
Expense Fund	0	0	0
Pension Reserve Fund	42,493,093	53,776,916	59,141,952
TOTAL	<u>\$91,608,492</u>	<u>\$102,398,736</u>	<u>\$107,084,942</u>

Chicopee Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2000)	\$25,110,424	\$9,690,009	\$13,443,429	\$4,523	\$0	\$60,310,317	\$108,558,703
Receipts	3,260,320	295,039	7,864,731	3,287	681,911	(1,168,365)	10,936,922
Interfund Transfers	(1,301,827)	1,302,996	(1,169)	0	0	0	0
Disbursements	(603,879)	(1,290,551)	(9,834,343)	<u>0</u>	(681,911)	<u>0</u>	(12,410,683)
Ending Balance (2000)	26,465,038	9,997,493	11,472,649	7,810	0	59,141,952	107,084,942
Receipts	3,505,100	296,332	9,227,699	128	642,616	(5,364,944)	8,306,930
Interfund Transfers	(1,065,103)	1,074,233	(7,954)	(1,084)	0	(92)	(0)
Disbursements	(629,475)	(1,375,048)	(10,345,997)	<u>0</u>	(642,616)	<u>0</u>	(12,993,136)
Ending Balance (2001)	28,275,559	9,993,010	10,346,397	6,854	0	53,776,916	102,398,736
Receipts	3,557,622	305,417	9,486,446	1,208	594,403	(11,283,823)	2,661,272
Interfund Transfers	(2,104,977)	2,104,977	0	0	0	0	0
Disbursements	(476,579)	(1,371,001)	(11,009,534)	<u>0</u>	(594,403)	<u>0</u>	(13,451,516)
Ending Balance (2002)	<u>\$29,251,626</u>	<u>\$11,032,404</u>	<u>\$8,823,308</u>	<u>\$8,062</u>	<u>\$0</u>	<u>\$42,493,093</u>	<u>\$91,608,492</u>

Chicopee Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2002	2001	2000
Annuity Savings Fund:			
Members Deductions	\$3,055,840	\$2,935,660	\$2,657,576
Transfers from other Systems	62,828	25,749	50,463
Member Make Up Payments and Redeposits	61,416	61,684	52,012
Investment Income Credited to Member Accounts	<u>377,538</u>	<u>482,006</u>	<u>500,268</u>
Sub Total	<u>3,557,622</u>	<u>3,505,100</u>	<u>3,260,320</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>305,417</u>	<u>296,332</u>	<u>295,039</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	36,224	53,652	31,910
Received from Commonwealth for COLA and Survivor Benefits	937,317	1,012,560	0
Pension Fund Appropriation	<u>8,512,904</u>	<u>8,161,487</u>	<u>7,832,821</u>
Sub Total	<u>9,486,446</u>	<u>9,227,699</u>	<u>7,864,731</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	1,099	0	3,126
Investment Income Credited Military Service Fund	<u>109</u>	<u>128</u>	<u>161</u>
Sub Total	<u>1,208</u>	<u>128</u>	<u>3,287</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>594,403</u>	<u>642,616</u>	<u>681,911</u>
Sub Total	<u>594,403</u>	<u>642,616</u>	<u>681,911</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	49,381	43,208	47,713
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	6,782	4,058	6,211
Excess Investment Income	<u>(11,339,986)</u>	<u>(5,412,209)</u>	<u>(1,222,289)</u>
Sub Total	<u>(11,283,823)</u>	<u>(5,364,944)</u>	<u>(1,168,365)</u>
TOTAL RECEIPTS	<u>\$2,661,272</u>	<u>\$8,306,930</u>	<u>\$10,936,922</u>

Chicopee Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,			
Annuity Savings Fund:	2002	2001	2000
Refunds to Members	\$267,149	\$366,664	\$472,534
Transfers to other Systems	<u>209,430</u>	<u>262,811</u>	<u>131,344</u>
Sub Total	<u>476,579</u>	<u>629,475</u>	<u>603,879</u>
Annuity Reserve Fund:			
Annuities Paid	1,342,179	1,265,763	1,227,844
Option B Refunds	<u>28,822</u>	<u>109,284</u>	<u>62,707</u>
Sub Total	<u>1,371,001</u>	<u>1,375,048</u>	<u>1,290,551</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	7,619,618	7,033,385	6,756,835
Survivorship Payments	666,683	604,518	579,196
Ordinary Disability Payments	160,591	149,296	156,568
Accidental Disability Payments	1,777,609	1,836,300	1,651,196
Accidental Death Payments	586,028	527,338	496,941
Section 101 Benefits	95,258	90,103	84,722
3 (8) (c) Reimbursements to Other Systems	103,746	105,057	108,885
State Reimbursable COLA's Paid			
Chapter 389 Beneficiary Increase Paid			
Sub Total	<u>11,009,534</u>	<u>10,345,997</u>	<u>9,834,343</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	12,715	12,000	13,789
Salaries	183,849	170,321	164,019
Legal Expenses	5,515	3,672	3,468
Medical Expenses	0	0	101
Travel Expenses	5,482	5,435	11,644
Administrative Expenses	27,773	43,145	23,641
Furniture and Equipment	407	7,764	4,098
Management Fees	346,743	395,980	430,979
Custodial Fees	1,918	4,298	30,174
Consultant Fees	<u>10,000</u>	<u>0</u>	<u>0</u>
Sub Total	<u>594,403</u>	<u>642,616</u>	<u>681,911</u>
TOTAL DISBURSEMENTS	<u>\$13,451,516</u>	<u>\$12,993,136</u>	<u>\$12,410,683</u>

Chicopee Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2002	2001	2000
Investment Income Received From:			
Cash	\$10,068	\$27,494	\$76,665
Short Term Investments	21,605	43,335	74,622
Fixed Income	0	154,340	2,859,996
Equities	6,750	24,286	153,721
Pooled or Mutual Funds	3,615,322	4,747,904	854,520
Commission Recapture	<u>0</u>	<u>355</u>	<u>3,806</u>
TOTAL INVESTMENT INCOME	<u>3,653,744</u>	<u>4,997,714</u>	<u>4,023,330</u>
Plus:			
Realized Gains	552,780	2,118,640	9,078,242
Unrealized Gains	14,308,966	15,286,654	15,673,978
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>463</u>	<u>235</u>	<u>673,615</u>
Sub Total	<u>14,862,209</u>	<u>17,405,528</u>	<u>25,425,835</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	(65,208)	(297,734)
Realized Loss	(10,697,292)	(6,191,985)	(5,463,383)
Unrealized Loss	(17,880,946)	(19,463,561)	(22,835,615)
Custodial Fees Paid			
Consultant Fees Paid			
Management Fees Paid			
Board Member Stipend			
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(235)</u>	<u>(673,615)</u>	<u>(597,344)</u>
Sub Total	<u>(28,578,472)</u>	<u>(26,394,369)</u>	<u>(29,194,076)</u>
NET INVESTMENT INCOME	<u>(10,062,520)</u>	<u>(3,991,127)</u>	<u>255,089</u>
Income Required:			
Annuity Savings Fund	377,538	482,006	500,268
Annuity Reserve Fund	305,417	296,332	295,039
Military Service Fund	109	128	161
Expense Fund	<u>594,403</u>	<u>642,616</u>	<u>681,911</u>
TOTAL INCOME REQUIRED	<u>1,277,466</u>	<u>1,421,082</u>	<u>1,477,378</u>
Net Investment Income	<u>(10,062,520)</u>	<u>(3,991,127)</u>	<u>255,089</u>
Less: Total Income Required	<u>1,277,466</u>	<u>1,421,082</u>	<u>1,477,378</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$11,339,986)</u>	<u>(\$5,412,209)</u>	<u>(\$1,222,289)</u>

Chicopee Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$3,823,985	\$3,823,985	4.04%	100
Short Term	3,910,124	3,910,124	4.13%	100
Fixed Income	81,683	81,683	0.09%	40 - 80
Equities	70,500	70,500	0.07%	40
Pooled Short Term Funds			0.00%	
Pooled Domestic Equity Funds	38,709,393	38,709,393	40.89%	
Pooled International Equity Funds	2,942,881	2,942,881	3.11%	
Pooled Global Equity Funds			0.00%	
Pooled Domestic Fixed Income Funds	40,886,471	40,886,471	43.19%	
Pooled International Fixed Income Funds			0.00%	
Pooled Global Fixed Income Funds			0.00%	
Pooled Alternative Investment Funds			0.00%	
Pooled Real Estate Funds	4,237,071	4,237,071	4.48%	
Pooled Domestic Balanced Funds			0.00%	
Pooled International Balanced Funds			0.00%	
PRIT Cash Fund			0.00%	
PRIT Core Fund			0.00%	100
GRAND TOTALS	<u>\$94,662,107</u>	<u>\$94,662,107</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2002**, the rate of return for the investments of the **Chicopee** Retirement System was -10.11%. For the five-year period ending December 31, **2002**, the rate of return for the investments of the **Chicopee** Retirement System averaged 2.68%. For the eighteen-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Chicopee** Retirement System was 9.01%.

Chicopee Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

The **Chicopee** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

March 30, 1989

20.04 (6) Equities of foreign corporations, including American Depository Receipts, listed on the New York Stock Exchange provided that all such investments are denominated in U.S. currency, and that the total of all such investments shall not exceed 10% of the total book value of equity investments.

20.06 (2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of Ba or equivalent as rated by one or more recognized bond rating services.

20.06 (4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of Ba or equivalent.

20.06 (8) Sales of fixed income investments with maturities exceeding one year shall not exceed 150% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short term obligations.

20.07 (6) Sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

January 30, 1990

20.04 (6) Equities of foreign corporations, including American Depository Receipts listed on a United States stock exchange or traded over the counter in the United States, provided that all such investments are denominated in U.S. currency, and that the total of all such investments shall not exceed 10% of the total book value of equity investments.

November 27, 1991

20.07 (9) Commingled real estate shall not exceed 5% of the total book value of the portfolio at the time of purchase provided that:

- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

Chicopee Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (CONT.)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

December 14, 1995

20.03(1) Equity investments shall not exceed 60% of the portfolio valued at market, including international equities which shall not exceed 5% of the portfolio valued at market.

March 21, 1996

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds which shall be limited to 10% of the total fixed income portfolio valued at market.

June 20, 1996

20.07(9) Commingled real estate shall not exceed 5% of the total book value of the portfolio at the time of purchase provided that:

- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

April 7, 2000

16.08 In accordance with PERAC Investment Guideline 99-2, the Chicopee Retirement Board may invest in the Freedom Equity Style Fund. Proceeds will come from a large cap equity value separate account managed by Freedom Capital Management. As long as the Fund maintains its value focus, there is no change in investment strategy or in the universe of securities to be considered. Since the Fund invests in an index rather than in individual securities, this modification affords reduced fees to the System.

June 27, 2000

16.08 In accordance with PERAC Investment Guideline 99-2, the Chicopee Retirement Board may make a modest modification to its fixed income management mandate with Freedom Capital Management. Under this modification, the manager may invest up to 15% of the account's assets in high yield securities on an opportunistic basis. The Board has had a successful relationship with Freedom Capital as a fixed income manager since 1986 and it is satisfied that the company has sufficient capability in the high-yield market to accomplish the modified mandate.

December 27, 2000

16.08 The Chicopee Retirement System may modify its investment with Freedom Capital Management in accordance with Investment Guideline 99-2. In order to achieve cost savings deriving from economies of scale, the System's Core Plus Fixed Income and Large Cap Value mandates with Freedom Capital will change from separately managed accounts to participation in commingled funds.

Chicopee Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Chicopee** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Chicopee Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Chicopee Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Chicopee** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 4, 1998

- I. Requirements for membership
 - A. A permanent full time employee of any member unit of the Chicopee Contributory Retirement System shall become a member of the Chicopee Contributory Retirement System on the first day of employment.

Chicopee Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

- B. A part time permanent employee who normally works more than twenty hours per week shall become a member of the Chicopee Contributory Retirement System on the first day of employment.
- C. Temporary employees shall be ineligible for membership, however, upon becoming permanent, the employee shall have the option of purchasing prior service.
- D. Elected officials shall continue to have the option of joining the Chicopee Contributory Retirement System in accordance with General Laws, Chapter 32, section 3(2)(a)(iv).

II. Creditable Service

- A. Full time employees will receive one (1) year of creditable service provided they work the hours required by their position. Part time employees whose position have always been part time shall be granted full creditable service. Part time employees who become full time shall have their part time service prorated as it relates to a full time position.

III. Buyback of Creditable Service

- A. For any employee who is not a member of the Chicopee Contributory Retirement System on the first date of employment that employee, upon becoming a member, shall be allowed to buy back their service as a non-member regardless if the employee made contributions to deferred compensation.

April 22, 1999

Seasonal employees who work more than 20 hours per week for five months or more on a regular basis shall become members of the Chicopee Contributory Retirement System upon reaching eligibility.

Chicopee Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the **Public Employee Retirement Administration Commission** as of **January 1, 2002**.

The actuarial liability for active members was	\$86,754,318
The actuarial liability for vested terminated members was	674,550
The actuarial liability for non-vested terminated members was	193,082
The actuarial liability for retired members was	<u>96,857,999</u>
The total actuarial liability was	184,479,949
System assets as of that date were (actuarial value)	<u>112,638,610</u>
The unfunded actuarial liability was	<u>\$71,841,339</u>
The ratio of system's assets to total actuarial liability was	61.1%
As of that date the total covered employee payroll was	<u>\$36,719,366</u>

The normal cost for employees on that date was 7.78% of payroll

The normal cost for the employer was 7.13% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
Rate of Salary Increase: varies by service and job group

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2002

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2002	\$ 112,638,610	\$ 184,479,949	\$ 71,841,339	61.1%	\$ 36,719,366	195.6%
1/1/2000	\$ 108,558,703	\$ 162,016,497	\$ 53,457,794	67.0%	\$ 33,195,832	161.0%
1/1/1997	\$ 71,782,253	\$ 122,707,117	\$ 50,924,864	58.5%	\$ 29,816,652	170.8%

Chicopee Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Superannuation	28	30	25	27	31	25	25	22	21	46
Ordinary Disability	0	1	0	0	0	1	0	0	0	1
Accidental Disability	2	4	2	2	1	2	3	5	4	0
Total Retirements	30	35	27	29	32	28	28	27	25	47
Total Retirees, Beneficiaries and Survivors	797	806	814	820	832	839	845	843	843	864
Total Active Members	1,046	1,111	1,123	1,175	1,214	1,238	1,204	1,213	1,213	1,178
Pension Payments										
Superannuation	\$4,949,525	\$5,142,134	\$5,291,178	\$5,630,426	\$6,125,308	\$6,085,894	\$6,491,165	\$6,756,835	\$7,033,385	\$7,619,618
Survivor/Beneficiary Payments	422,599	412,441	435,376	458,075	478,754	519,657	520,207	579,196	604,518	666,683
Ordinary Disability	159,936	166,054	179,230	164,592	167,934	169,453	158,664	156,568	149,296	160,591
Accidental Disability	1,201,171	1,321,145	1,331,149	1,477,800	1,582,946	1,563,280	1,626,168	1,651,196	1,836,300	1,777,609
Other	433,445	493,456	551,004	566,577	610,069	630,864	613,937	690,548	722,498	785,033
Total Payments for Year	\$7,166,676	\$7,535,230	\$7,787,937	\$8,297,470	\$8,965,011	\$8,969,148	\$9,410,141	\$9,834,343	\$10,345,997	\$11,009,534